THE STATE OF

AGRICULTURAL CREDIT

IN NEW ZEALAND

J.G. PRYDE

L.B. BAIN

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THE AGRICULTURAL ECONOMICS RESEARCH UNIT
Lincoln College, Canterbury, N.Z.

The Agricultural Economics Research Unit (AERU) was established in 1962 at Lincoln College, University of Canterbury. The aims of the Unit are to assist by way of economic research those groups involved in the many aspects of New Zealand primary production and product processing, distribution and marketing.

Major sources of funding have been annual grants from the Department of Scientific and Industrial Research and the College. However, a substantial proportion of the Unit's budget is derived from specific project research under contract to government departments, producer boards, farmer organisations and to commercial and industrial groups.

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PREFACE

The Agricultural Economics Research Unit recognises the importance of credit to the New Zealand agricultural sector. Efforts to research this subject have been steadily increased over the past few years.

The present paper constitutes the fourth credit-orientated AERU publication in the last three years. The first was Research Report No. 114 by J.G. Pryde and S.K. Martin; this report reviewed the New Zealand credit system. The second was Discussion Paper No. 69 written by Glen Greer; this paper reviewed finance data availability and data requirements of institutions associated with farm finance. The third was Discussion Paper No. 77 written by R.L. St Hill; this paper reported the results of analyses of the relationships between monetary policy and lending to the agricultural sector by private sector financial institutions.

The present paper reviews the background to the present rural credit situation, discusses present farm credit needs and costs, and reviews some of the important issues surrounding the current credit market. The paper was written by Mr J.G. Pryde, research fellow in Agricultural Policy at the College, and Mr L.B. Bain, assistant research economist in the AERU. Financial assistance from the Ministry of Agriculture and Fisheries, the Reserve Bank and the Rural Bank is gratefully acknowledged.

P.D. Chudleigh
Director

FOREWORD

In his book 'The Provision of Credit' the late Professor Horace Belshaw affirmed that 'fundamentally, credit plays the same part in agriculture as in other industries and the underlying principles are similar; but the conditions affecting the manner in which these principles apply in practice differ to such an extent as to constitute a special rural credit problem. In view of the volume of credit which is required in the aggregate by farming industries, and of the importance of these industries in the economic life of the community, the problem is worthy of more attention than is normally devoted to it by economists'.

Belshaw made these comments over 50 years ago. Since then the importance of the subject has not diminished - indeed it could be argued easily that today it is of even greater relevance to the welfare of the New Zealand economy and its primary industries.

J.G. PRYDE

ACKNOWLEDGEMENTS

The authors wish to acknowledge their appreciation to the institutions, companies and individuals who assisted in providing both financial data and comments on the state of agricultural credit.

The comments and suggestions of the Director and other staff of the Agricultural Economics Research Unit, Mr R.L. St Hill of the Department of Agricultural Economics and Marketing, and Mr N. Gow of the Department of Farm Management and Rural Valuation, Lincoln College, on an earlier draft of this paper have also been appreciated.

SECTION 1

INTRODUCTION

In this paper the subject of agricultural credit has been subdivided into three sections covering background, borrowing and lending.

The background covers some of the changes in the New Zealand economy and government policies which have affected both borrowers and lenders in the agricultural sector, and consequently the amount and form of credit used.

The section on borrowing (Section 3) examines the present credit needs of farmers, in particular the apparent trends towards increased equity and greater difficulty in servicing debt.

The lending section (Section 4) examines the roles of government and private lending institutions in the field of agricultural credit and changes in the amount and form of credit available.

SECTION 2

BACKGROUND TO THE PRESENT SITUATION

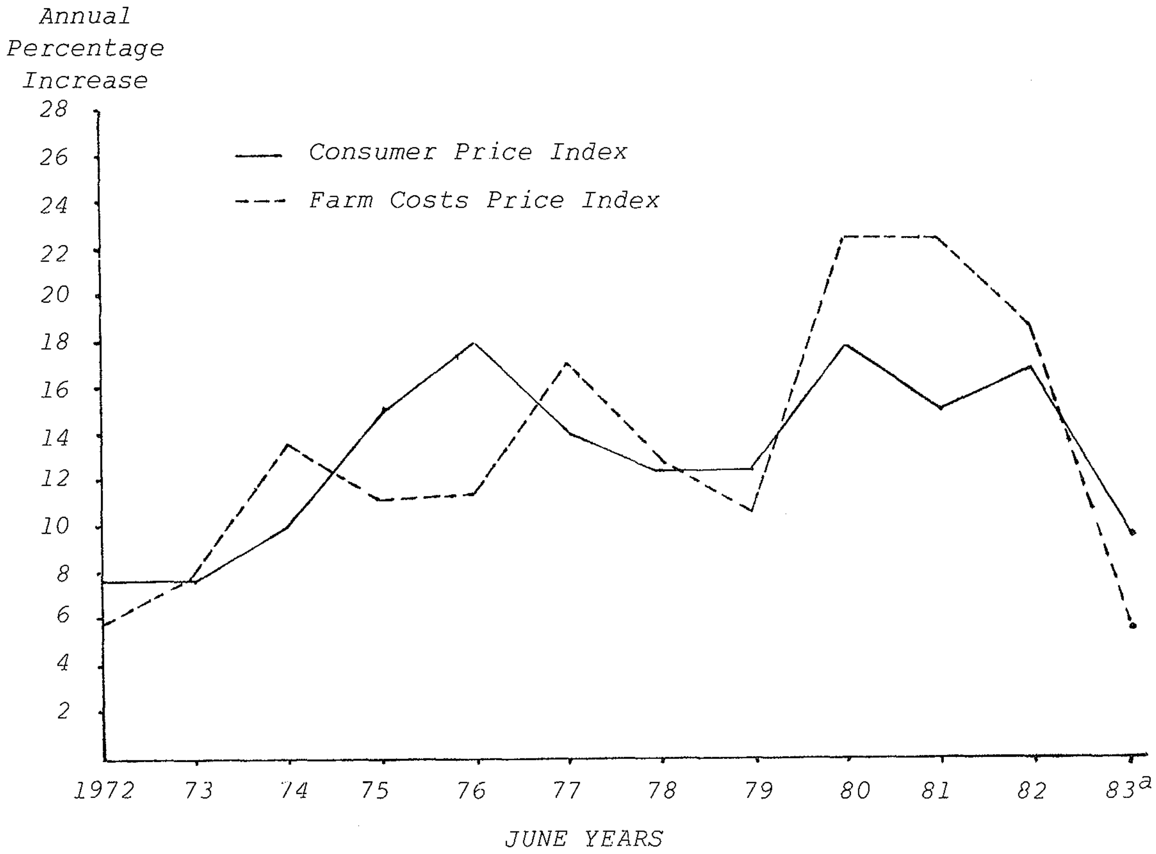
2.1 General

2.1.1 Inflation.

From the early 1970's until 1982 New Zealand experienced increasing rates of inflation. Despite fluctuations in the rates of increase of both the Consumer Price and the Farm Costs Price Indices, the overall trend has been upwards from rates of 6-8 per cent to 15-22 per cent. For five of the six years up until 1982 farm costs were increasing at faster rates than consumer prices (see Figure 1).

FIGURE 1

Consumer and Farm Costs Price Indices - Annual Percentage Increase



a. Estimate of Farm Cost Price Index increase - series discontinued December 1982

SOURCE: Department of Statistics

2.1.2 The value of the New Zealand dollar.

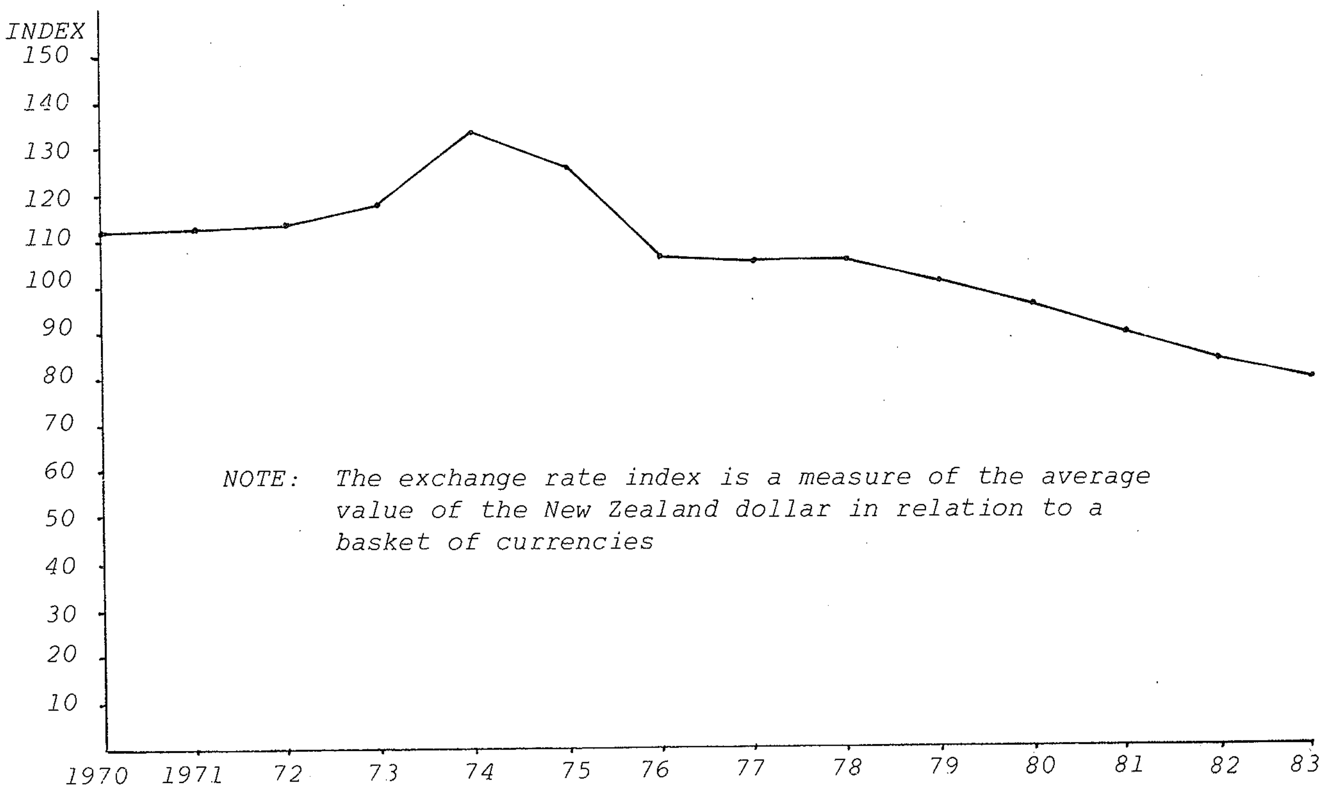
Prior to 1967 the New Zealand dollar experienced more than 15 years of stability in value. But in November of that year the Government used devaluation as a means to "... achieve balance of payments equilibrium". The essential objectives in altering the exchange rate were "... to reduce the demand for imported goods by raising their price" and to "... shift additional resources into the export sectors".[1]

But the devaluation appeared, inter alia , to shelter exporters from the reality of falling demand and prices and thus removed the incentive for change and rationalisation. To compound the problem the higher cost of inputs, following the increase in import prices and (as inflation increased) local prices, made diversification and rationalisation less profitable.

Although it was stated by the Prime Minister of the day that "... this is an operation which cannot be repeated, ..."[1] the New Zealand dollar has since been allowed to continue its overall decline in value (see Figure 2). The most recent step in this decline was a 6 per cent devaluation in March 1983.

FIGURE 2

Exchange Rate Index - Base : June 1979 = 100



SOURCE: Reserve Bank Bulletin

1. Rt. Hon. K.J. Holyoake (21/11/67). Statement to Parliament reproduced p.215, Reserve Bank Bulletin 1967.

This steady fall in value of the New Zealand dollar against the basket of currencies does not however reveal the collapse in value against some of the stronger currencies shown in Table 1.

TABLE 1

Fall in the Value of the NZ$ from June 1970 to June 1983 as against:

U.S. Dollar	53%
U.K. Sterling	14%
Australian Dollar	40%
Japanese Yen	69%
West German DM	70%

SOURCE: Reserve Bank

Although as indicated, there was a substantial fall in the New Zealand exchange rate in the 1967-83 period, throughout most of the time the NZ dollar was over-valued from the farmers' point of view. If the exchange rate had been allowed to float farmers would have received higher receipts from the export of their primary produce. As a result the income position of farmers would have been enhanced and their credit needs changed.

2.1.3 Farmland prices.

The increase in farmland prices from 1970 to 1982 is illustrated in Figure 3. During this period the compounded average annual increase in the price index was 18.2 per cent. By comparison annual increases in the consumer price index averaged only 12.9 per cent.

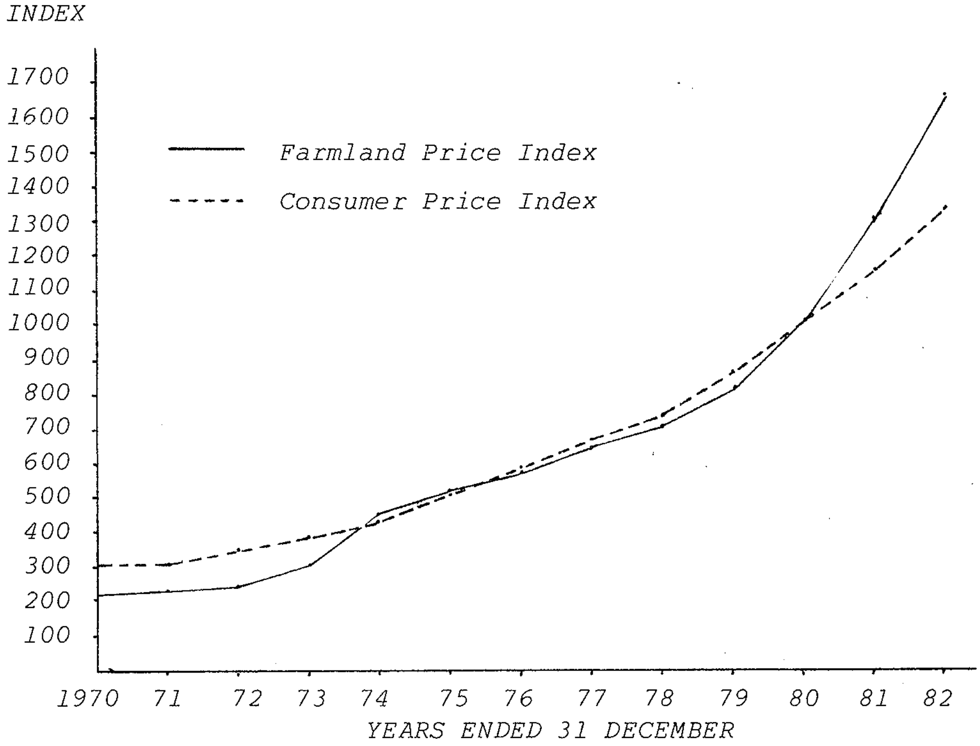
2.1.4 Farm investment.

Inflation over the last decade weakened confidence in money as a store of value. Under the rapidly progressive income tax rates operating it also moved more income earners onto high tax rates. The result was substantial interest in farm investment as a form of shelter from inflation and a relief from higher taxation.

Investors in farming found that they could reduce their taxable income by spending on farm development or on interest on farm mortgages. The amount spent could later be recovered tax free (subject to certain limitations) on the sale of the farm. The write down available on the purchase of additional livestock also produced substantial tax savings but had the limitation that the tax liability was merely postponed rather than eliminated.

FIGURE 3

Farmland Price Index (Yearly Series)
Consumer Price Index (All Groups)
Bases : Year ended December 1980 = 1000

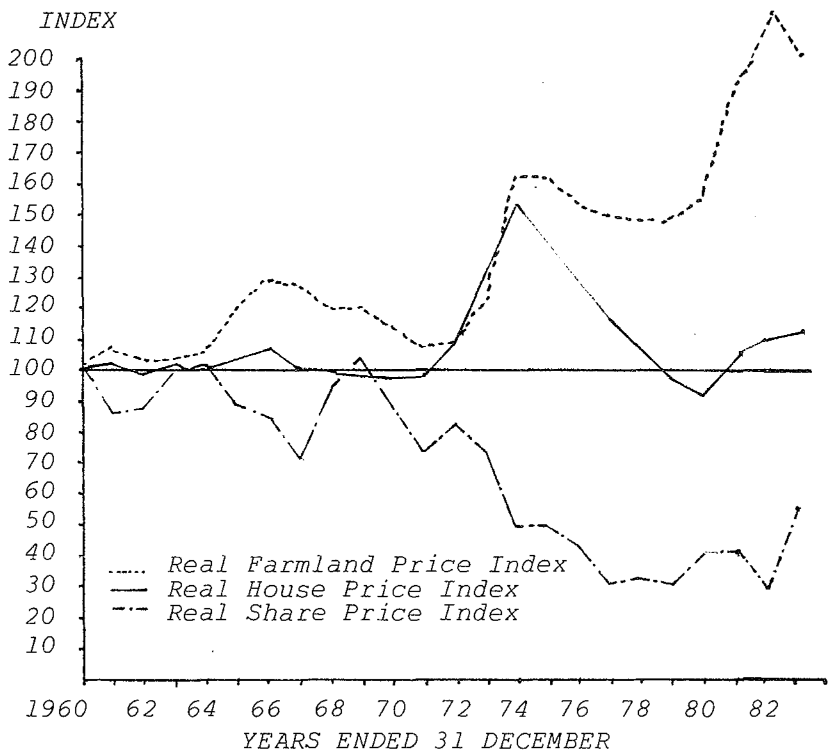


SOURCES: Valuation Department
Statistics Department

In addition to the benefits of converting taxable income into tax free capital gains, investment in farmland was protected as land values tended to keep up with inflation. During the 1972-74 and 1979-81 periods an added bonus was the substantial real growth in farmland values (see Figure 4).

FIGURE 4

Real Price Indices (1960-1983)
Base Year 1960 = 100



SOURCES: *Consumer Price Index - (All Groups) Department of Statistics*
Farmland Price Index - Valuation Department
House Price Index - Valuation Department
Share Price Index - Reserve Bank Share Price Index
Report of the Task Force on Tax Reform 1982

2.2 Some Government Policies Relevant to the Rural Credit Situation

2.2.1 Establishment of the Rural Banking and Finance Corporation.

In 1972 the Committee of Inquiry into Lending to Farmers concluded that there was no justification for the establishment of a rural bank or any separate rural lending corporation. However there had been considerable dissatisfaction within the farming industry with the allocation of State Advances Corporation funds as between rural and urban lending. The Committee therefore recommended that the Corporation establish a Rural Board to formulate and supervise policy in relation to farm lending through the Corporation's Rural Division.

However, both Federated Farmers of New Zealand and the New Zealand Labour Party had, as part of their policies, the establishment of a separate rural bank. After the Labour Party was elected it adhered to its policy and established the Rural Banking and Finance Corporation in 1974.

The object was to provide farmers with a financial institution that could be identified and concerned solely with their economic progress. To achieve this the new Corporation, in addition to direct allocation of Government funds, was given the ability to accept deposits and issue bonds. Its directors, who were to be concerned principally with agriculture, were given greater authority to effect future policies and had close links to Government through being directly responsible to the Minister of Finance. Finally, of the five directors, two could be appointed only after consultation with Federated Farmers.

2.2.2 The 1976 monetary policy review.

When the National Government took office in 1976 it undertook a major review of monetary policy. New policies were sought to stimulate savings, to effect improvements in the structure of the financial systems and to strengthen the Government's ability to control credit.

To stimulate savings particularly by the small saver, interest rates offered on savings bank deposits and investments in Government and local authority stocks were increased.

To effect improvements to the structure of the financial system a policy of more flexible interest rates was adopted. Firstly, more regular reviews of interest on savings bank deposits were to be undertaken. Secondly, the Interest on Deposits Regulations which had restricted rates of interest payable by most controlled financial institutions were abolished. These changes were to encourage the flow of funds in the market through the more efficient institutions, to give more appropriate returns for different groups of savers and greater freedom to borrowers to obtain the type of loans they required.

By encouraging the increase in institutional credit at the expense of uncontrolled markets such as solicitors and company mortgages, the Government apparently intended to strengthen its ability to influence the direction and the total amount of private sector lending.

2.2.3 The Livestock Incentive Scheme.

Introduced in 1976, this scheme was administered by the Rural Bank and comprised two distinct incentive schemes based on increases in livestock numbers. For each additional qualifying stock unit carried, a farmer had the option of either an interest free suspensory loan of \$12 or a deduction from assessable income of \$24. Increases in livestock numbers had to be sustained for two years in order to qualify. Loans totalling \$129.01 million, involving an additional 10.75 million stock units, were authorised over the 6 year period of the scheme.

2.2.4 The Land Development Encouragement Loan Scheme.

Introduced in 1978, this scheme was also administered by the Rural Bank. It took the form of concessional, part suspensory, loans to assist farmers to develop unimproved or reverted land for pastoral, agricultural or horticultural purposes. A total of $151.54 million was authorised under the scheme for the development of 942,000 hectares. This had the potential to increase stock carrying capacity by 4.82 million stock units. However, due to adverse economic and climatic conditions, implementation of some development plans has been delayed and funds approved have yet to be uplifted. To complete the development schemes farmers will still have to inject substantial amounts of their own cash and/or borrowings. This could cause increased demands for credit in the areas concerned.

2.2.5 The Supplementary Minimum Prices Scheme.

In its 1978 Budget Government introduced the Supplementary Minimum Prices Scheme - a supplement to the already operating industry stabilisation schemes. Since its inception in excess of $700 million has been disbursed by Government, as per the following Table 2.

TABLE 2

Payments to Farmers Under The Supplementary Minimum Prices Scheme

Product	1979	1980	Season 1981	1982	1983[a]
			($ million)		
Wool	1.4	0.0	0.0	184.2	210.0
Lamb	0.0	0.0	0.0	93.9	135.0
Mutton	0.0	0.0	0.0	8.7	12.0
Beef	0.0	0.0	1.9	53.3	25.0
Milkfat	17.4	0.0	0.0	0.0	0.0
TOTAL	18.8	0.0	1.9	340.1	382.0

SOURCE: MAF (1983) New Zealand Agricultural Statistics 1983, Table 65.

a Agricultural Review Committee Estimate

There have been relatively few attempts so far to quantify the impacts that the scheme has had on the agricultural sector. In the short term however there is little doubt that the operations of the scheme have had the effect of reducing some of the credit demands of farmers over the 1978-83 period as well as improving the debt-servicing ability of farmers.

2.2.6 Interest rates on rural lending.

The 1971 Budget announced that market rates of interest would apply to certain classes of farming loans granted by the State Advances Corporation. This was a marked change from the Government's previous policy of subsidising all interest rates although a considerable degree of subsidy remained. As a result the interest rates on loans for refinance, initial purchase of farms and all other loans in excess of $30,000 were increased to 7 per cent for first mortgages and 8 per cent for subsequent mortgages. At that time the average mortgage interest rate for all new registrations (Government and private) was 7.25 per cent.

These changes were introduced because of concern with the falling-off in farm investment by private lenders and the related demand for Government loans.

Since 1971, subsequent Governments have allowed Rural Bank interest rates to lose relativity with non-government rates. Interest rates on non-government lending increased steadily, especially after restrictions on financial institutions were relaxed in 1976. Despite some upward adjustments in Rural Bank interest rates, and reimposition of controls on interest rates (on deposits) of most financial institutions in November 1981, the non-government average interest rate was nearly twice that of principal Rural Bank rates by March 1983 (see Table 3).

TABLE 3

Mortgage Interest Rates (New Lending)

As at 31st March	Average[a] Rate % (Excl. Govt.)	RURAL BANK RATES % Settlement Standard	Settlement Higher	Development Standard	Development Higher	Refinance Standard	Refinance Higher
1973	8.10	7	8	5.5-7	6-8	7	8
1974	8.23	7	8	5.5-7	6-8	7	8
1975	8.82	7	8	5.5-7	6-8	7	8
		Stand.	Concession Rates	Stand.	Concession Rates	Stand.	Concession Rates
1976	9.68	7.5	-	7.5	5.5	8.5	-
1977	10.62	7.5	-	7.5	5.5	8.5	-
1978	11.17	8.5	7.5	8.5	6	9.5	-
1979	11.81	8.5	7.5	8.5	6	9.5	-
1980	12.53	9	7.5	9	6	11	-
1981	14.30						
1982	15.79	9	7.5	9-11	7.5	11	-
1983	17.04	9	7.5	9-11	7.5	11	-

SOURCES: Reserve Bank of New Zealand
Rural Banking and Finance Corporation

a Includes mortgages on all types of real property.

2.2.7 The operations of the Central Bank.

The Government has the ability to influence investment decisions in agriculture through the Reserve Bank of New Zealand. The Bank may use persuasion and/or various instruments of monetary policy. These include the reserve assets ratio applied to trading banks, a variable Reserve Bank interest rate charged for borrowing by the trading banks and Government security investment ratios regulating a range of non-bank financial intermediaries. More directly the Reserve Bank negotiates the proportion of assets that some financial institutions hold in farm lending. There has been a long standing system of priority lending whereby exporters have first "claim" on loan finance. The agricultural sector, as the largest export earner, has therefore had preferential access to credit whenever loan finance has had to be rationed.

The Reserve Bank also provides overdraft facilities for some of the Producer Boards and manages the accounts of the various primary produce price and far.. income stabilisation schemes. These facilities can have a major impact on the funds available to agriculture as illustrated in Table 4.

TABLE 4

Reserve Bank Advances Outstanding to the Marketing and Stabilisation Accounts

Year to 31 March	Average ($m)	Peak ($m)	Peak Quarter
1974	132	168	June
1975	234	355	March
1976	325	368	March
1977	362	398	March
1978	356	431	March
1979	449	536	March
1980	485	533	December
1981	584	633	June
1982	598	705	March
1983	960	1245	March

SOURCE: Reserve Bank

2.3 Changes in Sources of Rural Finance

2.3.1 Agriculture's falling share of total loans to the private sector (by M3 institutions and life insurance companies).

In 1970 approximately 22 per cent of private lending was to agriculture (see Figure 5) but by 1982 the proportion was down to 13 per cent.

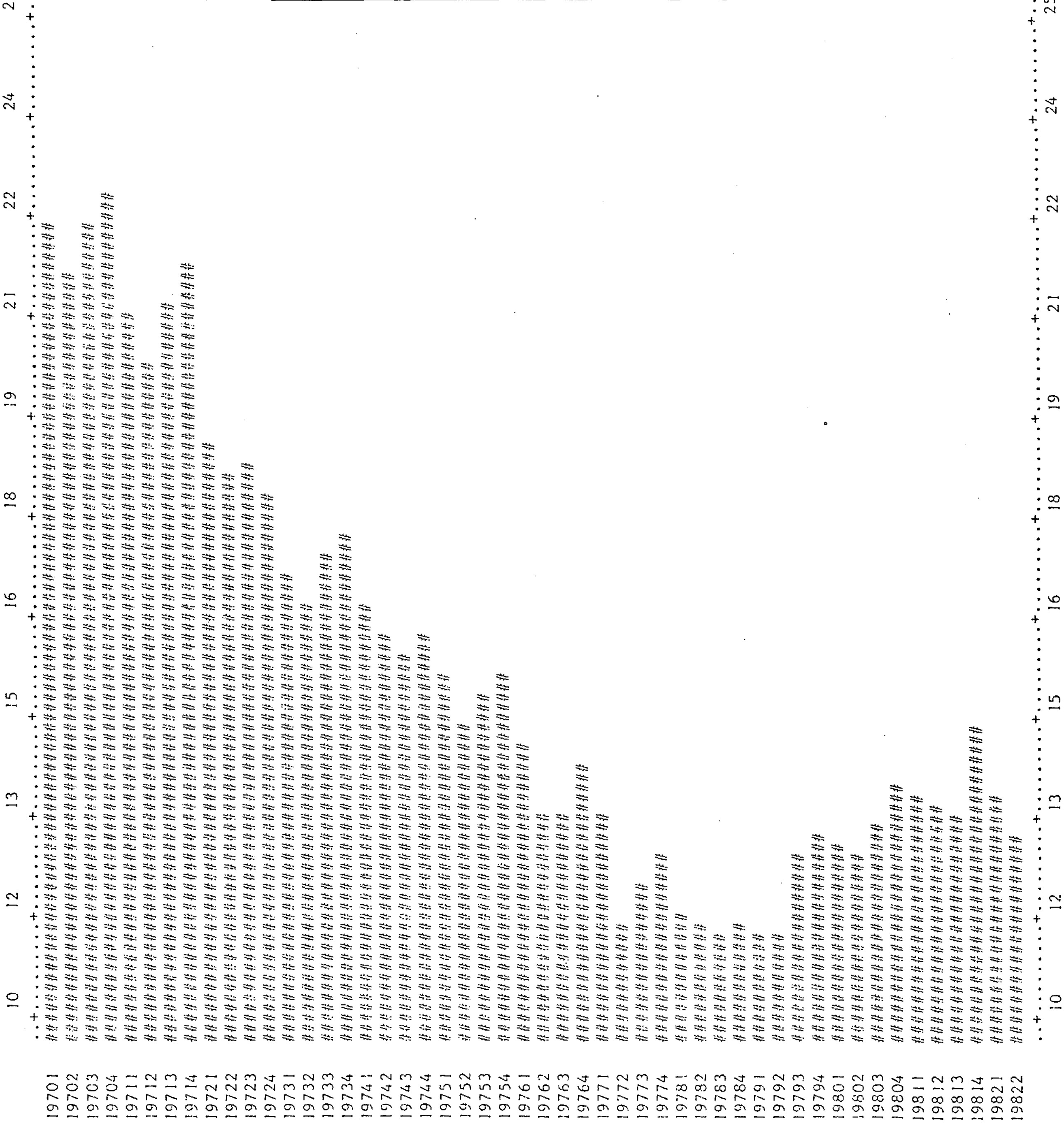
Cushioning slightly this overall fall in the agricultural sector's share, results of research (St Hill, 1983) suggest that "when the monetary policy stance becomes more restrictive the agricultural sector bears a less than proportional burden because its share in total loans outstanding rises slightly".

2.3.2 Increasing Government lending to agriculture.

In marked contrast to private institutional lending to the agricultural sector, lending through the State Advances Corporation and Rural Bank increased between 1970 and 1983 by approximately 49 per cent in real terms. Most growth was in the field of long and medium term finance. A 1983 survey of farmers (Pryde and McCartin, 1984) showed the Rural Bank had a 51 per cent share of long-term lending. If other Government lending is included, for example through the Lands and Survey and Maori Affairs Departments, the Government's contribution increases to 58 per cent. The only other prominent long term lenders are relatives of farmers and insurance companies with 18 per cent and 13 per cent shares respectively. Medium-term lending was more widely distributed with the Government contributing only 27 per cent (see Table 5).

FIGURE 5

The Share of Agriculture in Loans Outstanding of Selected Private Sector Institutions



Year/Qtr

PAG/PC1 = loans outstanding to the agricultural sector by M3 institutions and life insurance companies as a % of total loans to the private sector by these institutions

SOURCE: Compiled from St. Hill (1983)

TABLE 5

Distribution of Farmers' Total Liabilities at the end of the 1982/83 Financial Year (Per Cent)

Source	Share Of Total Lending	Share Of Long-Term Lending	Share Of Medium-Term Lending	Share Of Short-Term Lending
Rural Bank	36.27	51.47	26.78	6.72
Other Government	4.36	6.38	2.74	0.89
Trustee Savings Banks	2.90	3.81	2.34	1.12
Trading Banks	8.47	1.20	12.89	22.71
Building Societies	0.55	0.70	0.38	0.39
Insurance Companies	9.94	12.61	8.89	4.02
Stock and Station Agents	2.70	0.45	1.40	10.29
Trust Companies	2.67	1.30	4.87	3.77
Solicitors Trustee Funds	6.74	0.96	8.47	20.29
Family	15.49	18.05	14.18	10.20
Private Sources	5.11	0.82	12.10	8.38
Local Bodies	0.76	1.06	0.60	0.13
Finance Companies	2.33	0.13	2.44	8.14
Dairy Companies	0.46	0.21	0.57	1.11
Private Savings Banks	0.27	0.25	0.18	0.44
Others	0.98	0.60	1.17	1.40
TOTAL	100.00	100.00	100.00	100.00

SOURCE: Pryde and McCartin (1984).

NOTES:
1. Long term - over 10 years
   Medium term - 3-10 years
   Short term - under 3 years
2. The survey included only farms of 20 ha or more.

2.3.3 Trading banks and stock and station agents.

Trading banks are increasing in importance as medium- and short-term lenders. Over the 1970-83 period trading bank overdrafts and term loans to the agricultural sector increased in real terms by 77 per cent. In the same period stock and station agents lending fell by 40 per cent in real terms. In 1970 stock and station agents were lending 85 per cent more to farmers than trading banks but by 1983 trading banks were lending 58 per cent more than stock and station agents.

However, most of this switching would have had little effect on the overall market for rural credit as the trading banks finance much of the stock and station agents lending to farmers. The main effect is on the form of credit available to farmers.

The change in the sources of short-term credit is probably due to three factors.

Firstly, adjustments to Government financial policies allowed trading banks to attract funds more competitively after 1975.

Secondly, stock and station agents' difficulties in attracting profitable funds increased as inflation closed the gap between interest rates that had to be offered to attract deposits, and the rates (under Government regulations) which could be charged on lending. To overcome these regulations plus other restrictions imposed on institutions seeking public funds, the large stock and station agents now have finance companies as subsidiaries which are becoming significant sources of agricultural lending.

A third factor, apart from the changes in the availability of funds mentioned above, may be the demand preferences of farmers. With the increasing supply of funds available from banks after a long period of restrictions, more ıarmers were presented with a choice of sources of finance. It would appear that many farmers were ready for a change and opted for the credit terms offered by the trading banks.

2.3.4 Non-institutional lenders.

Solicitors' funds and family funds appeared to decline in importance as sources of rural credit between 1978 and 1982. This trend was reversed during the following twelve months possibly because of the tightening of controls on institutional lending (see Table 6).

TABLE 6

Family and Solicitors Trust Funds as Sources of Farm Credit - Percentage Share of Total Loans Outstanding at the end of the 1976/77, 1981/82 and 1982/83 Financial Years

Source	1976/77	1981/82	1982/83
Solicitors Trust Funds	8.63	6.15	6.74
Family/Relatives	16.06	13.27	15.49

SOURCE: Pryde (1978).

2.4 Recent Government Measures (1982-83).

During the 1982/83 period the Government's previous attitude towards reducing controls (especially direct controls) on the economy was reversed.

2.4.1 The Price, Wage and Rent Freeze.

Of the new measures to overcome New Zealand's economic difficulties the Wage, Price and Rent Freeze, introduced on the 22nd June 1982, was perhaps the most dramatic. To farmers inflation had become their greatest problem. Of respondents to a 1982 survey of farmer opinion (Pryde and McCartin, 1983) 46 per cent rated a reduction in the inflation rate as the most effective expansion incentive, a reduction in income tax received the support of 18 per cent, increased fertiliser subsidy received 15 per cent support and a range of other measures including higher SMPs, lower cost of credit and cash grants attracted a total of only 21 per cent of farmers. Not surprisingly, in the same survey, reaction to the Freeze was 86 per cent favourable and only 9 per cent unfavourable.

2.4.2 The 1982 Budget.

The 1982 Budget also contained several measures affecting the farming sector. One of the targets was the continued high level of private sector credit growth, which had been contributing to the upsurge in urban and rural property prices and to the deterioration in the external deficit. To overcome this, policies were introduced to ensure that lending policies of the financial institutions did not undermine the aims of the price and wage freeze. These took the form of high interest Government stock issues to absorb excess liquidity, combined with interest rate controls to curb increases in interest rates that might have resulted as financial conditions tightened. Thus Government was aiming, inter alia, to control both the volume and cost of credit.

The same Budget introduced new measures against tax avoidance directed at farming among other sectors. The payment of interest and development expenses on farm properties, being tax deductible, had been used as a means of reducing income and therefore income tax. These expenses were more than offset by tax free capital gains on the sale of the property. Under the new regulations, when property is sold within 10 years of its acquisition, and deductions have been allowed in respect of interest and development expenses, these deductions become assessable for income tax to the extent of profits made on the sale of the property. Write downs on the value of livestock from cost to standard or nil value had been another useful means of reducing income tax. Now, the write downs must be extended over a three year period and any losses created can be offset only against farm income and not against off-farm income. A measure subsequently introduced, to further restrict tax avoidance through farming, was to limit to $10,000 per year the losses from farming that could be offset against other income. There was also provision in the 1982 Budget for syndicates of more than

6 people to be treated as companies for taxation purposes. This limited the aggregation of those tax avoidance benefits that still remained.

2.4.3 The 1983 Budget.

This Budget announced even stronger measures to restrict the ability of financial institutions to expand their lending. The restraints were implemented through the Government's own debt sales programme, and guidelines issued by the Reserve Bank directed the major financial institutions to limit expansion of loans outstanding to a monthly rate of 1 per cent for the 1983/84 year. Further, the financial sector was asked to reduce interest rates both on deposits on lending in line with the new low level of inflation resulting from the Price and Wage Freeze.

SECTION 3

CREDIT NEEDS AND THE COST OF CREDIT

3.1 Farmers' Equity

Until recently the level of farmers' equity in their properties has been increasing steadily both in nominal and percentage terms as their assets have been increasing in value at a faster rate than their debts.

To obtain an estimate of the growth in debt over the whole agricultural sector, one approach is to use the results of surveys of New Zealand farmers conducted between 1978 and 1983. From these results the proportion of lending to farmers from each source can be calculated. As statistics of total lending are available for some of these sources an estimate of total lending from all sources can be attempted. For example in 1978 the proportion of lending from sources for which statistics were available was 58.4 per cent. The total lending from these sources was $1464.9 million. Therefore the estimate of <u>total</u> lending from <u>all</u> sources is $\frac{1464.9}{1} \times \frac{100}{58.4}$ or $2,508.4 million. Table 7 shows the result of these estimates.

TABLE 7

Estimated Total Farmer Debt

Year Ended 31st March	$ million	Annual % increase	Overall % increase
1978	2,508	17.8	
1979	2,955	17.5	
1980	3,472	17.5	
1981	4,101	18.1	
1982	4,962	20.1	
1983	5,397	8.8	115 $\frac{(1983)}{(1978)}$

SOURCE: Derived from data contained in 'Survey of Farmer Intentions and Opinions' (1978-84).

As stock and plant only account for approximately 20 per cent of farm assets most of the growth in capital and therefore equity has been as a result of the inflation in land prices (see Table 8).

Farmers' equity, on the basis of the figures in Tables 7 and 8 increased from 81.8 per cent of land value in 1978, to 85.9 per cent in 1981, to 88.0 per cent in 1983. This same trend was found in an analysis of sheep and beef farms from Meat and Wool Boards' Economic Service statistics (Beck, 1983). In the analysis, equity as a percentage of total assets, increased from 77.8 per cent in 1978 to 84.9 per cent in 1981.

TABLE 8

Net Equalised Capital Value of Counties

Year Ended 31st March	$ million	Annual % increase	Overall % increase
1978	13,754		
1979	15,219	10.7	
1980	17,650	15.8	
1981	29,171	65.3	
1982	40,892	40.2	
1983	45,190	10.5	229 (1983)/(1978)

SOURCE: Valuation Department

NOTES:
1. The net value excludes properties that are not rated, e.g. Unoccupied Crown Lands, churches, schools.
2. Equalised capital value is an estimate of the current value of all properties, not just those revalued in the current year.

3.2 The Slow Growth of Debt.

It is difficult to ascertain whether the relatively slow rate of growth in debt is because of restrictions on the availability of credit or because of farmer reluctance to borrow.

The Reserve Bank collects statistics on agricultural lending but data from most institutions show only the total loans outstanding. Information on the amount of new loans, loan repayments, declined applications and the reasons for applications being declined are generally not available. This makes it difficult to assess any unsatisfied demand.

A recent survey of New Zealand farmers (Pryde and McCartin, 1983) appears to provide the only up-to-date statistical information reflecting the true demand for credit by farmers. The survey was based on the 1981/82 income year and surveyed farms of 20 hectares or more.

It revealed that of the total amount of loans applied for by respondents only 16 per cent was declined. Table 9 is based on the number of valid responses instead of the amount of funds but does indicate how the demand for credit was met.

TABLE 9

Demand for Credit and Reasons for Declining

	Percentage of Respondents	Percentage of Loan Applicants	Percentage of Applicants Declined
Did not seek finance	53	-	-
Were not refused finance	35	75	-
Declined with no reason given	2	4	15
Declined because income insufficient	3	6	22
Declined because funds not available	6	13	48
Declined because of other reasons	2	4	15

SOURCE: Pryde and McCartin (1983).

Results from the same survey also show the proposed use of loans that were declined (see Table 10).

TABLE 10

Proposed Use of Declined Loans

Proposed Use	Percentage
Purchase of new or additional land	48
To finance farm development	26
To purchase plant and machinery	5
To refinance existing loans	16
For personal reasons	5

SOURCE: Pryde and McCartin (1983).

The results shown in Table 9 show that a large proportion of the funds that were applied for, were in fact provided. Furthermore, of the applications declined only half were because of lack of funds. This would appear to indicate lack of demand as the main constraint on increasing levels of indebtedness. To try to confirm this, the question "Why did you not borrow (more) finance during 1981/82 " was included in the same survey. The results (Table 11) again show that lack of supply is only a minor constraint on the growth of debt. Instead they emphasise farmers' general reluctance to borrow, and, for those willing to borrow, the difficulties of servicing debt because of lack of profitability.

TABLE 11

Why Farmers Did Not Borrow More Money During 1981/82

Reason	Percentage
Refused by lending institutions	5
Did not want to increase indebtedness	40
Repayments too difficult	9
No profitable use for additional finance	37
Other	8

SOURCE: Pryde and McCartin (1983).

3.3 General Constraints on Borrowing

3.3.1 Uncertain rural property market.

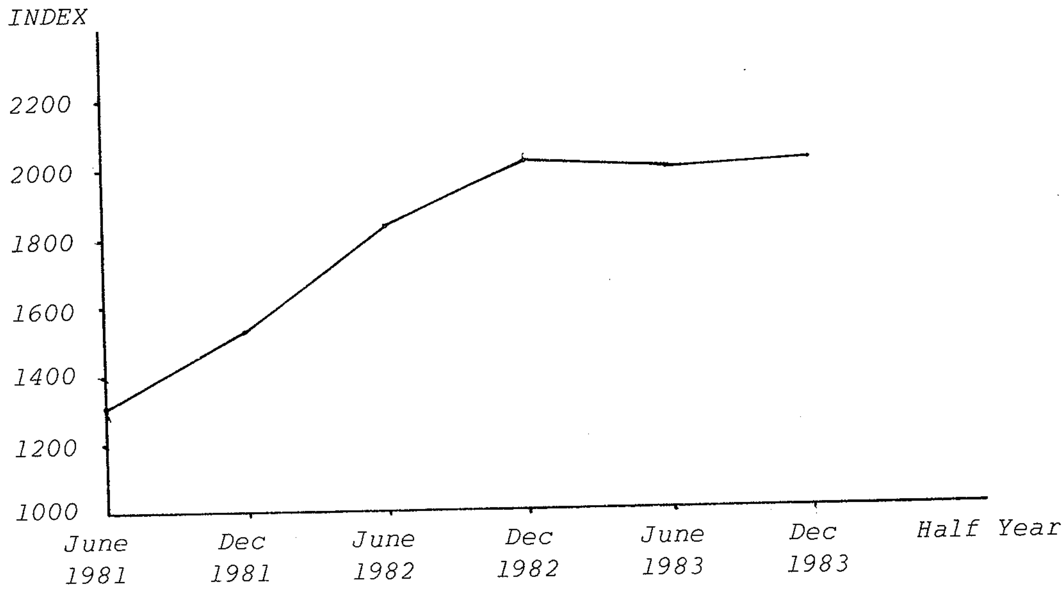
Throughout recent periods of high inflation farmers have been encouraged to continue investing in farming, in spite of low incomes, because of gains in the capital value of their land (see Table 12).

Although high capital gains were a factor encouraging farmers to borrow up until 1982, an uncertain rural property market since may be a steadying influence (see Figure 6).

FIGURE 6

All Farmland Price Index

Base : Half Year Ended June 1980 = 1,000



SOURCE: Valuation Department

3.3.2 Low incomes.

A major constraint on borrowing is the inability of farmers to generate the cash flow to service debt. Although capital gains on farm properties have been high they were of no direct assistance to farmers wishing to stay in the business of farming. These farmers must rely on income from farm production to service their debt and while incomes are low they are restricted in their ability to borrow.

Returns to farmers have fallen and costs increased to such an extent that for many farmers the results have been cash deficits.

Dairy farmers were an exception, as up until 1982/83 they had increasing net incomes. However, lower export prices during the 1983/84 season may reverse this trend and result in no end-of-season bonus being given. If this occurs dairy farmers may experience a period of deficit spending as have sheep, beef and arable farmers.

Sheep and beef farmers have not had steady increases in income. Despite heavy support through the supplementary minimum prices schemes net incomes have fallen and are likely to continue to fall during 1983/84 (see Table 12).

The trend towards deficit spending by sheep and beef farmers began in 1980/81. In that year over one half of all the classes in the Meat and Wool Boards' Economic Service survey showed drawings and taxation payments in excess of net income. In particular, for South Island hill country farms the excess was 60 per cent. For the 1981/82 financial year it is understood that most, if not all, classes of sheep and beef farmers will have drawings and taxation payments in excess of their net income.

Arable farmers were affected at an even earlier stage than sheep and beef farmers. In the 1979/80 financial year expenditure on drawings and taxation by intensive cropping farmers exceeded net income by 15 per cent (Lough, McCartin and Rich, 1981). By the following year expenditure on drawings and taxation by all groups of cropping farmers had exceeded net income by an average of 25 per cent (Lough, McCartin and Rich, 1982).

Another indicator of deficit spending, apart from the farmer surveys above, is the growth in trading bank lending. As deficit spending increased in 1980/81, trading bank overdraft lending showed a 44 per cent increase. The result appears to have been a high incidence of 'hard core' debt as in the following year trading bank term loans showed an equally dramatic increase of 65 per cent.

3.3.3 Farmers' price expectations.

The outlook for farm produce prices, as well as the level of current incomes, is an important factor in assessing debt servicing ability.

From Table 13 it is apparent that apart from the short-term outlook for beef and horticultural produce and the long-term outlook for wool, market prospects do not look very encouraging to farmers. With this poor outlook farmers are less likely to borrow heavily for development or to buy more land, so demand for credit should fall. In a study of the use of credit in New Zealand pastoral farming, Beck (1983) concluded that "while increasing land values provide the capacity to borrow, it appears that this capacity is not utilised until a period of high income improves expectations of future profitability and capacity to repay".

TABLE 12

Sheep and Beef Farms : Measures of Economic Profitability
(Weighted Average of All Farm Classes)

Year	Capital $	Liabilities $	Equity Capital $	Interest $	Net Farm Income $	Less Assessed Managerial Reward $	Return on Equity Capital	Gain in Equity Capital	Equivalent to Taxable Return on Equity Capital of:
1978	340,991	80,614	260,377	5,070	13,888	9,380	1.7%	6.2%	17.2%
1979	430,132	90,285	399,847	5,848	19,494	11,452	2.4%	30.4%	78.4%
1980	558,120	99,267	458,853	7,438	24,772	13,685	2.4%	35.0%	89.9%
1981	709,156	112,488	596,668	8,964	21,968	16,507	0.9%	30.0%	75.9%
1982	807,589	137,744	669,845	10,896	23,500	19,431	0.6%	12.3%	31.4%
*1983				12,195	21,400				
*1984				12,484	19,000				

* Estimates

NOTE: Net Farm Income has to meet personal living expenses, taxation commitments, capital repayments, the purchase of capital items and any other investments.

SOURCE: Compiled from Meat and Wool Boards' Economic Service Survey Data.

TABLE 13

Farmer Opinion on Future Market Prospects for Agricultural Produce

	Optimistic (per cent)	Reasonably Satisfied (per cent)	Pessimistic (per cent)
SHORT TERM			
Sheep meat	13	36	51
Beef	50	43	7
Wool	31	59	10
Dairy Produce	14	48	38
Horticultural Produce	49	45	6
MEDIUM TERM			
Sheep meat	15	46	39
Beef	32	61	7
Wool	36	57	7
Dairy Produce	13	47	40
Horticultural Produce	40	51	9
LONG TERM			
Sheep meat	32	34	34
Beef	31	53	16
Wool	45	45	10
Dairy Produce	26	35	39
Horticultural Produce	40	41	19

SOURCE: Pryde and McCartin (1984) : Survey of New Zealand Farmer Intentions and Opinions (Progress result based on 1,050 valid responses)

3.3.4 Changes in taxation.

Measures introduced in the 1982 Budget, directed at farmers with sources of income other than from farming, will have restricted their ability to service debt (see Section 2.4). These farmers had been able to inject substantial amounts of cash into farming and thus improve the agricultural sector's ability to service debt and develop.

The increasing significance of this group of farmers may be reflected in the growth of off-farm investments held by farmers as a whole. Recent surveys of farmers (Pryde and McCartin, 1982-1984) show an increase in off-farm assets from an average of $19,759 in 1980 to $40,134 in 1983.

3.4 Cost Constraints on Borrowing

3.4.1 Inflation and interest rates.

Throughout the 1970's and early 1980's interest rates climbed steadily as shown in Table 3, but during the same period there was an even higher inflation in land values and the cost of farm inputs. Anticipatory buying became more profitable as interest rates fell behind.

Two events in 1982 changed farmers' view of the cost of credit. The first was the end of the land boom and the beginning of an era of static or falling land values. The second was the introduction of the Price and Wage Freeze. As a result of the freeze farmers' expectations of inflation fell from an annual rate of 13.5 per cent for 1982/83 to 8.5 per cent for 1983/84 (Pryde and McCartin, 1984). For the first time in more than a decade borrowers were faced with the prospect of inflation rates substantially below interest rates. That farmers recognise the significance of these changes was shown in the 1983 survey in which 74 per cent of respondents rated the cost of credit as the most important factor in borrowing ahead of the amount available and the term of the loan.

3.4.2 Total debt servicing load.

While interest rates were rising, total debt of farmers was also rising although not at the same rate as asset values. The combination of these two factors substantially increased the debt servicing load. For example, sheep and beef farmers' expenditure on interest is expected to increase by 113 per cent between the 1978/79 and 1983/84 financial years (New Zealand Meat and Wool Boards' Economic Service). In dollar terms the increase is from $1.91 to $3.86 per stock unit. In the same period gross income is expected to rise by only 55 per cent.

3.4.3 Government measures to reduce interest rates.

During the second half of 1983, the Government took steps to reduce interest rates on all mortgage lending, inter alia, to help reduce the debt servicing burden of many farmers.

One of the first measures introduced by the Government was to reduce the interest rates on new lending by the Rural Bank. This took effect on 28 July 1983 and included almost all Rural Bank interest rates (see Table 14). The new Rural Bank interest rates also apply to existing loans when they come up for review.

TABLE 14

Changes in Rural Bank Interest Rates (As from 28 July, 1983)

Type of Loan	Old Rates (per cent)	New Rates (per cent)
Settlement - Standard	9	7.5
Concession	7.5	7.5
Development - Standard	9 - 11	7.5
- Concession	7.5	7.5
Refinance - Standard	11.0	9.5
Rural Industrial	11.0 - 14.0	11.0

SOURCE: Rural Bank

The second step taken by the Government was to ask institutional and private lenders to reduce their interest rates on mortgages. In the area of farming loans the Rural Bank was used as a lever to persuade other mortgagees to reduce their rates. As most mortgagees prefer a first mortgage, the Rural Bank was able to use its position as subsequent mortgagee to insist that new first mortgages were to be granted at a maximum rate of 12 per cent. If a higher rate was sought then the Rural Bank would not give priority and a first mortgage could not be granted. The Rural Bank also imposed limits on new subsequent mortgages. If a farmer were to apply for a loan from the Rural Bank and a subsequent loan from another lender, the Rural Bank could refuse to approve its loan unless the subsequent mortgage was granted at an interest rate of not more than 14 per cent. Because Rural Bank loans were on such attractive terms, borrowers had a strong incentive to accept the new policy.

The third step taken by the Government was the introduction of the Financial Services Regulations 1983 and the Financial Institutions (Mortgage Loans) Regulations 1983. The object of the Regulations was to force lenders to reduce their lending rates, in some cases below the levels indicated in the Government's earlier requests. In the case of first mortgages the new maximum rates were to be 11 per cent and for subsequent mortgages 14 per cent. The result has been a shortage of first and, to a lesser extent, subsequent mortgage finance and unless lenders accept or find a way to circumvent the new Regulations, the shortage is likely to continue.

An important point is that changes in the average interest rates paid by farmers will not be as great as the changes in new lending rates. During the last 10 years while interest rates have been climbing, the bulk of outstanding mortgages have been at interest rates well below the new lending rates, especially where interest reviews are at long intervals or not provided for. The result has been average interest rates well below the rates for new loans. Conversely, if the current trend of reducing interest rates were to continue then in time the average interest rate could be higher than the new lending rates.

3.4.4 Other costs.

Interest charges are an important cost of borrowing but not the only cost. The trend towards shorter loan terms has increased the cost of borrowing, through escalating professional fees such as those of accountants, valuers, brokers, consultants and lawyers having to be paid more often. Shorter terms have also meant higher capital repayments which in turn mean higher tax payments and cash flow constraints. Other costs can include mortgage guarantees and indirect costs such as obligations to maintain a certain level of business with the lending institution concerned.

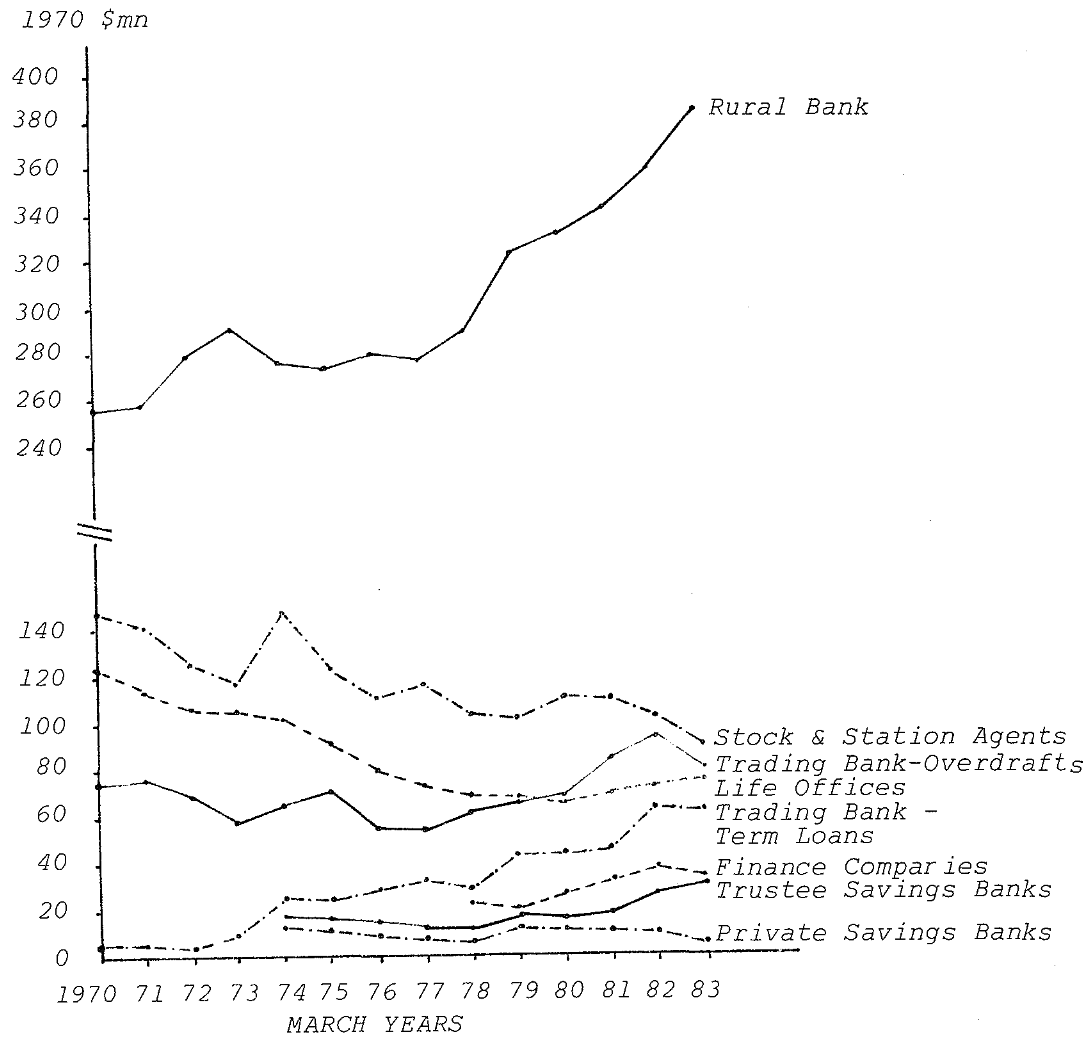
SECTION 4

THE CREDIT MARKET

Recently, New Zealand has seen two major trends in rural lending: the isolation of the Rural Bank as the long-term lender, and the growth of trading banks as short- and medium-term lenders. Figure 7 illustrates the changes in lending in real terms of selected institutional lenders.

FIGURE 7

Total Agricultural Lending by Institutions - Adjusted to 1970 Dollars



SOURCE: Rural Bank
Reserve Bank

4.1 Government Sources

4.1.1 The Rural Banking and Finance Corporation.

Established in 1974 as a separate corporation with provision to borrow and lend on the open market, the Rural Bank has so far been unable, mainly because of various government policies, to operate fully on that market. Instead it appears to have been used as a policy instrument of Government with directions to lend at low interest rates, principally to those already farming, whether as owners or employees and particularly to those producing traditional commodities. The result has been a restriction on the ability of the Bank to determine the direction of lending that would be likely to give the best return on the capital invested.

Although Rural Bank lending is still directed primarily towards traditional farming enterprises, it does have an advantage over the old State Advances Corporation. This is because greater innovation has been possible in the forms of lending that are undertaken. Table 15 shows the wide range of loans available in the 1982/83 year and the relative importance of each type.

Because of Government-directed low interest rates, the Rural Bank has so far had neither the approval nor the capacity to compete successfully for funds on the open market on a similar basis to the Development Finance Corporation. Instead it has had to rely substantially on funds voted in each year's Budget (see Table 16). The latest interest rate changes will further remove the possibility of the Bank being able to reduce its dependence on Government funds.

Because of the favourable terms and rates of interest on Rural Bank loans the Corporation was under heavy pressure to meet the demand from farmers until the beginning of the 1983/84 financial year. However, it is understood that for the first few months of the 1983/84 financial year the demand eased and the usual backlog of applications did not appear. The numbers of applications may of course increase again as a result of the lower interest rates introduced in July 1983.

The adequacy of the supply of funds from the Rural Bank is difficult to gauge. While a significant proportion of loan applications are declined (see Figure 8) the bank does not specify whether it is because of lack of funds or for other reasons, such as lack of viability of the proposal or lack of security.

TABLE 15

Rural Bank Loan Authorisations 1982/83

Type of Loan		Number	Total $ (m)		Average Loan $
Farm Settlement	- Sheep	392	57.23		146,000
	- Dairy	422	55.78		131,000
	- Other	81	6.29		78,000
	- Farm Workers' Holdings	272	14.90		55,000
				133.70	
Development	- Land Improvements	6,432	87.18		13,500
	- Farm Buildings & Houses	3,068	75.06		24,500
	- Extra Stock	645	9.61		15,000
				171.85	
Sheepfarmers Consolidation		1,830		39.61	21,500
Stock and Plant Loans - Sharefarmers		1,167		32.69	28,000
Livestock Incentive Scheme		1,204		16.59	14,000
Rural Industrial Lending		332		14.36	43,500
Additional Land		210		13.30	
Fishing Industry		109		7.72	71,000
Climatic Relief		369		5.75	15,500
Department of Lands and Survey Settlement		35		3.16	90,000
Land Development Encouragement [a]		1		0.74	-
Other		297		4.15	14,000
		16,866		443.62	

SOURCE: Rural Bank

a Includes extensions to existing programmes in addition to one new loan.

NOTE: Individual borrowers may have been assisted under more than one category.

TABLE 16

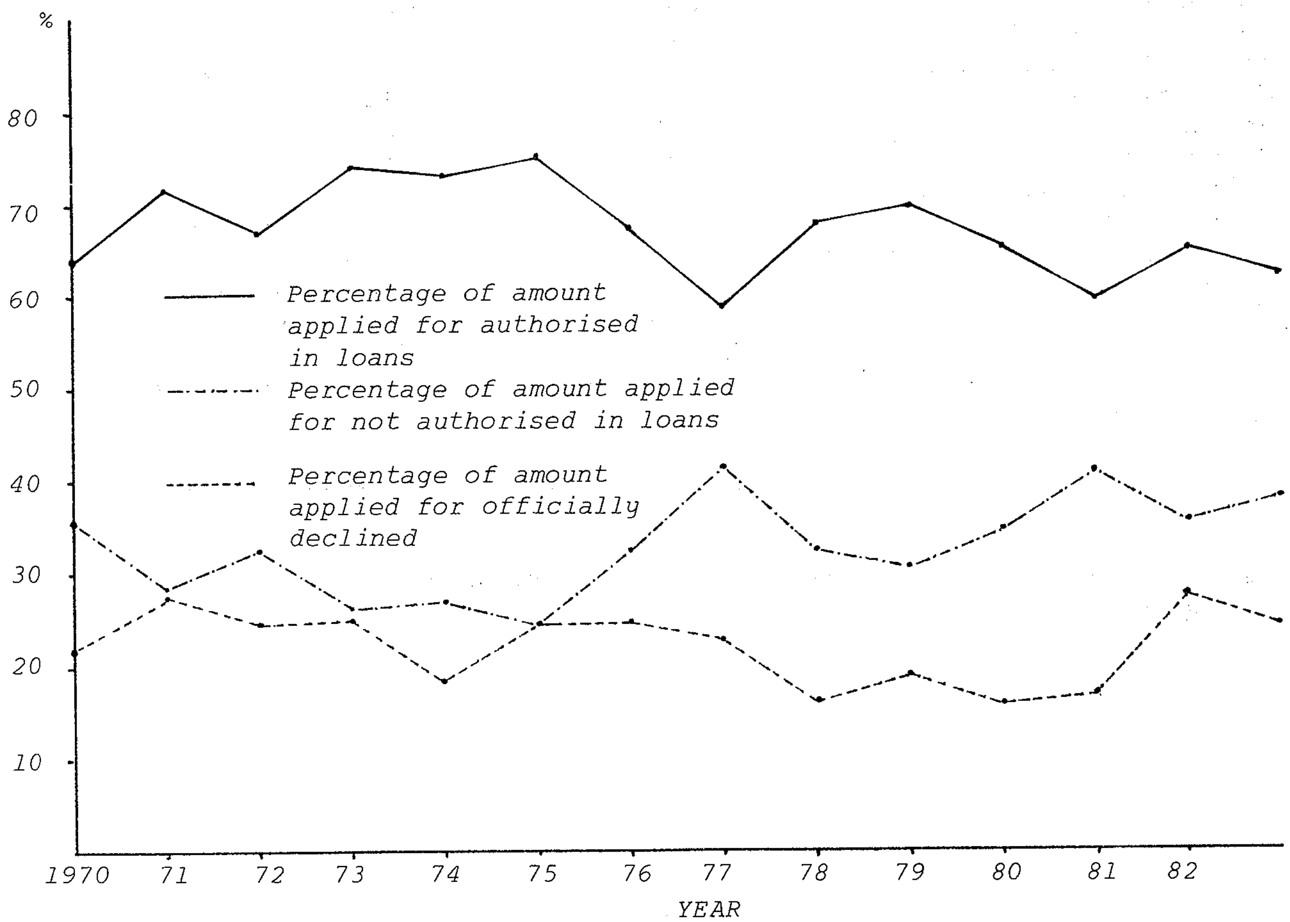
Rural Bank Sources of Funds

Year	Repayments ($m)	Drawings from Government ($m)	Farm Vendor Bonds ($m)
1975	36.9	N.A.	-
1976	34.8	9.30	-
1977	47.9	90.0	-
1978	59.3	150.0	-
1979	73.3	307.9	2.5
1980	95.2	208.0	4.8
1981	114.0	246.8	3.5
1982	150.0	334.0	2.7
1983	150.2	287.0	3.1

SOURCE: Rural Bank Reports

FIGURE 8

Rural Bank Loan Authorisations



Another problem in assessing the adequacy of supply is that formal loan applications may not be a reliable indicator of the level of demand. The Report of the State Advances Corporation 1971 stated that "... the number of applications actually lodged only partly reflects the demand for Corporation finance. In a substantial number of cases preliminary approaches result in the enquirer accepting that, for one reason or another, an application from him cannot be entertained". This screening process is still used by the Rural Bank.

Loans approved by the Rural Bank are generally long-term. Although loans are made on an "on demand" basis, in practice the "demand" facility is rarely used and loans are allowed to run for long terms. The Rural Bank's Annual Report does not categorise loans according to term but the results of a 1983 survey of farmers (Pryde and McCartin, 1984) showed that 78 per cent of Rural Bank mortgages were for 10 years or more, 18 per cent for 3 to 10 years and only 4 per cent were for less than 3 years.

The Corporation's few advances on current account go mainly to farmers settled under its Special Settlement Scheme with some to tobacco and pip fruit growers in the Nelson region. Once these farmers build up their reserves they are expected to obtain their requirements from the usual seasonal financiers.

4.1.2 The Reserve Bank of New Zealand.

The Reserve Bank makes a direct contribution to the supply of agricultural credit through advances to the producer marketing organisations. The amount of these advances increased dramatically in the year to 31 March 1983 (see Table 4).

In order to reduce the Dairy Board's use of the Reserve Bank overdraft facilities, the Government imposed a ceiling of $750 million to take effect from the beginning of the 1983/84 season. To make up the anticipated shortfall in funds the Dairy Board has had to arrange overdraft facilities for $200 million with the trading banks, and raise $50 million through an underwritten promissory note and $100 million from the money market. The extra interest costs to the industry will be substantial as the Reserve Bank interest rate was only 1 per cent. The new arrangements will also place an undoubted constraint on the Dairy Board's ability to assist in the future investment projects undertaken by the industry.

4.2 Private Institutional Sources

4.2.1 Trustee Savings Banks.

Trustee savings banks have shown the strongest real growth in farm lending of all the private lending institutions other than the trading banks. From 1978 to 1983 their farm lending increased by 164 per cent in real terms (see Figure 7). Their role is such that they now contribute 3.8 per cent of long-term funds and 2.3 per cent of medium-term funds. This growth may reflect both their ability to compete successfully for funds and their willingness to lend to farmers. In the case of Trustee Savings Banks, farm loans attract higher interest rates than home loans, farm loans being classed as "semi-commercial".

4.2.2 Private Savings Banks.

Private Savings Banks have had a falling share of farm lending mainly because of a lack of growth in deposits (see Figure 7). They are at a disadvantage as they usually share the same premises as trading banks, and must compete for funds with other more profitable sectors of their own banking group.

4.2.3 Building Societies.

Building societies have shown growth in new lending to farming from $5.8 million in 1979 to $11.0 million in 1983. Unfortunately statistics on total farm lending by Building Societies are not available, making it difficult to assess the significance of their contribution. However, from a 1983 survey of farmers (Pryde and McCartin, 1984) it would appear that they contribute only 0.7 per cent of long-term lending and 0.4 per cent of medium-term lending. Their role may increase if the present low level of public security investment requirement (16 per cent) is maintained as building societies have recently been competitive in attracting deposits. Another advantage is that, building societies classify farm loans as commercial loans and charge higher interest rates than housing loans.

4.2.4 Finance companies.

Finance companies have developed into significant lenders to agriculture with 8.1 per cent of the short-term credit market by the end of the 1982/83 financial year (Pryde and McCartin, 1984). In the 5 years to 1983 the real growth in finance company lending to farming was 58 per cent (see Figure 7). Most of the lending has been for vehicle and machinery purchase but there has also been a trend towards lending for land purchase and for horticulture. The increasing importance of finance companies as agricultural financiers highlights a sectoral problem in the supply of agricultural credit.

Investors in new agricultural and horticultural industries, either because of their background or the nature of their enterprise, have often failed to qualify for Rural Bank finance. Traditional private sources of finance have not always been ready or able to assist either. The result has been an increase in lending by finance companies to meet the needs of these entrepreneurs.

4.2.5 Trading banks.

Trading banks provide mainly medium- and short-term credit. For farms over 20 ha trading banks supply approximately 23 per cent of short-term finance, and 13 per cent of medium-term finance (Pryde and

McCartin, 1984). With the change in controls on trading banks during the 1970s their share of total deposits and consequent lending ability increased rapidly. Their direct lending to farmers for the 10 years to 1983 increased from $85.2 million to $674.3 million. Within this, the proportion of fixed term lending increased from 13 per cent to 43 per cent with a corresponding fall in the proportion of overdraft (see Figures 9 and 10).

One reason for the increase in term lending could be that term loans have been used to replace hard core debt, which develops in stock firm and trading bank overdraft accounts. A second reason could be that banks prefer to have more effective control over the flow of their funds. This trend is to the disadvantage of farmers needing flexibility in seasonal finance to cope with the uncertainties of the weather and markets.

Trading banks subdivide their farm lending into three categories: mainly sheep farming, mainly dairy farming and other farming . The proportion going to other farming has been steadily growing (see Figures 9 and 10). It may be that this reflects growth in lending to small farmers, particularly those involved in horticulture. If statistics on the share of total lending held by various lending institutions are compared, trading banks appear to hold different shares, depending on the size of farm surveyed. Of total lending in 1982 by the Rural Bank and institutions surveyed by the Reserve Bank, trading banks had a 20 per cent share. This includes lending to all farms. By comparison a 1982 survey of farmers with 20 hectares or more shows trading banks with only a 12.8 per cent share of total lending by the same institutions.

Trading bank lending to small farmers is also reflected in the unpublished results of a survey of horticultural enterprises (Gray, 1981). In the survey trading banks provided 49.5 per cent of the loans taken out by respondents including both short- and long-term loans.

4.2.6 Stock and station agents.

Stock firms have had a real decline in their lending (see Figure 7). This may have been due to the limits on their lending rate under the Moneylenders Act and then the Credit Contracts Act, making it impossible to attract funds that could be lent profitably. The result was that their credit went to clients doing the most mercantile business as it was the only way the cost of supplying funds could be fully recovered. Even before deposit rates started to approach the maximum lending rates and when lending was still profitable, stock and station agents did not have much growth in their lending. This was possibly due to the new competitiveness of trading banks and farmer reluctance to become obligated to a particular stock and station agent. A further reason for the real decline in lending by stock and station agents may be that they lend primarily to sheep and beef farmers, the sector which has been most adversely affected by the economic recession (see Figure 11).

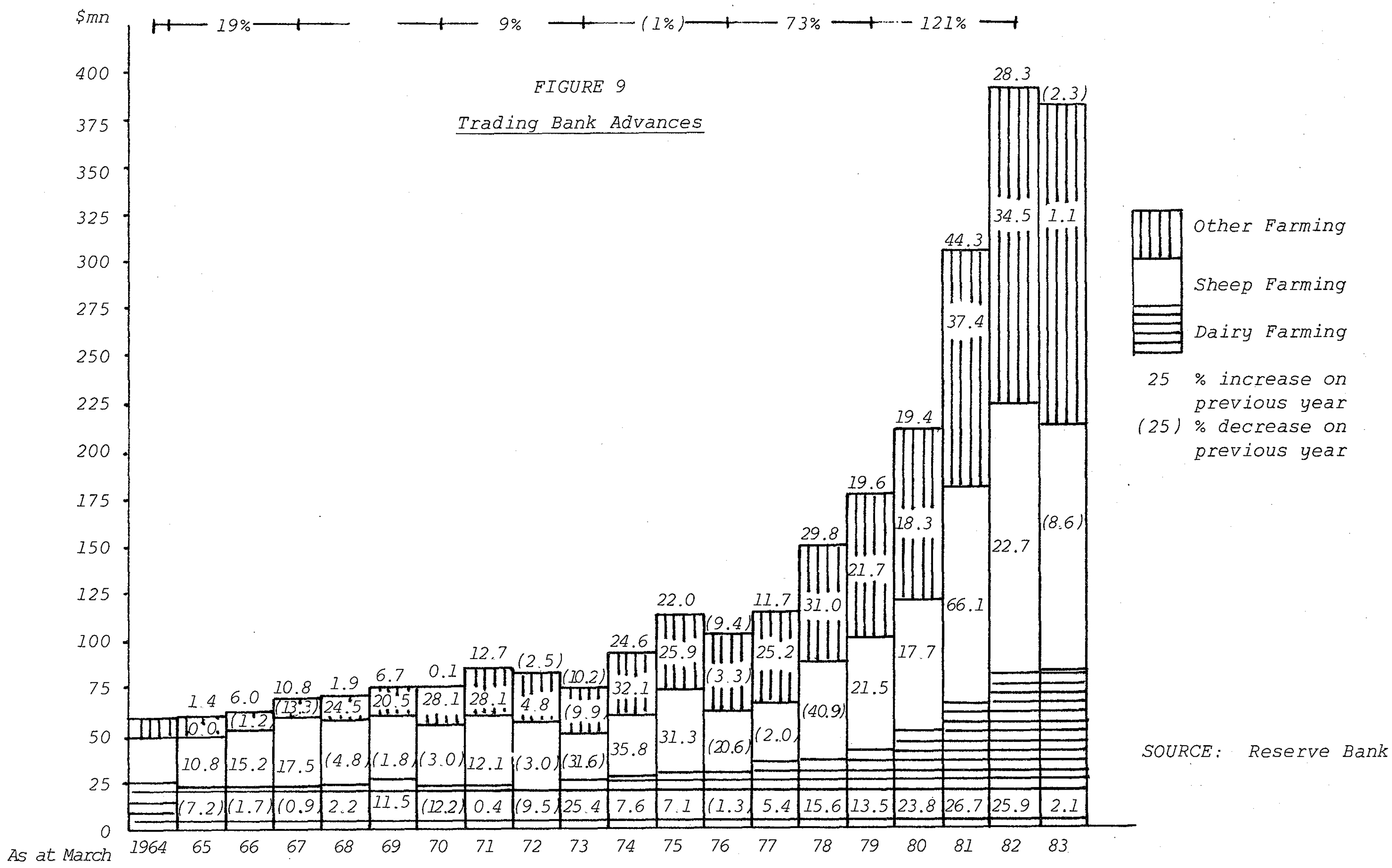


FIGURE 9

Trading Bank Advances

FIGURE 10

Trading Bank Term Loans

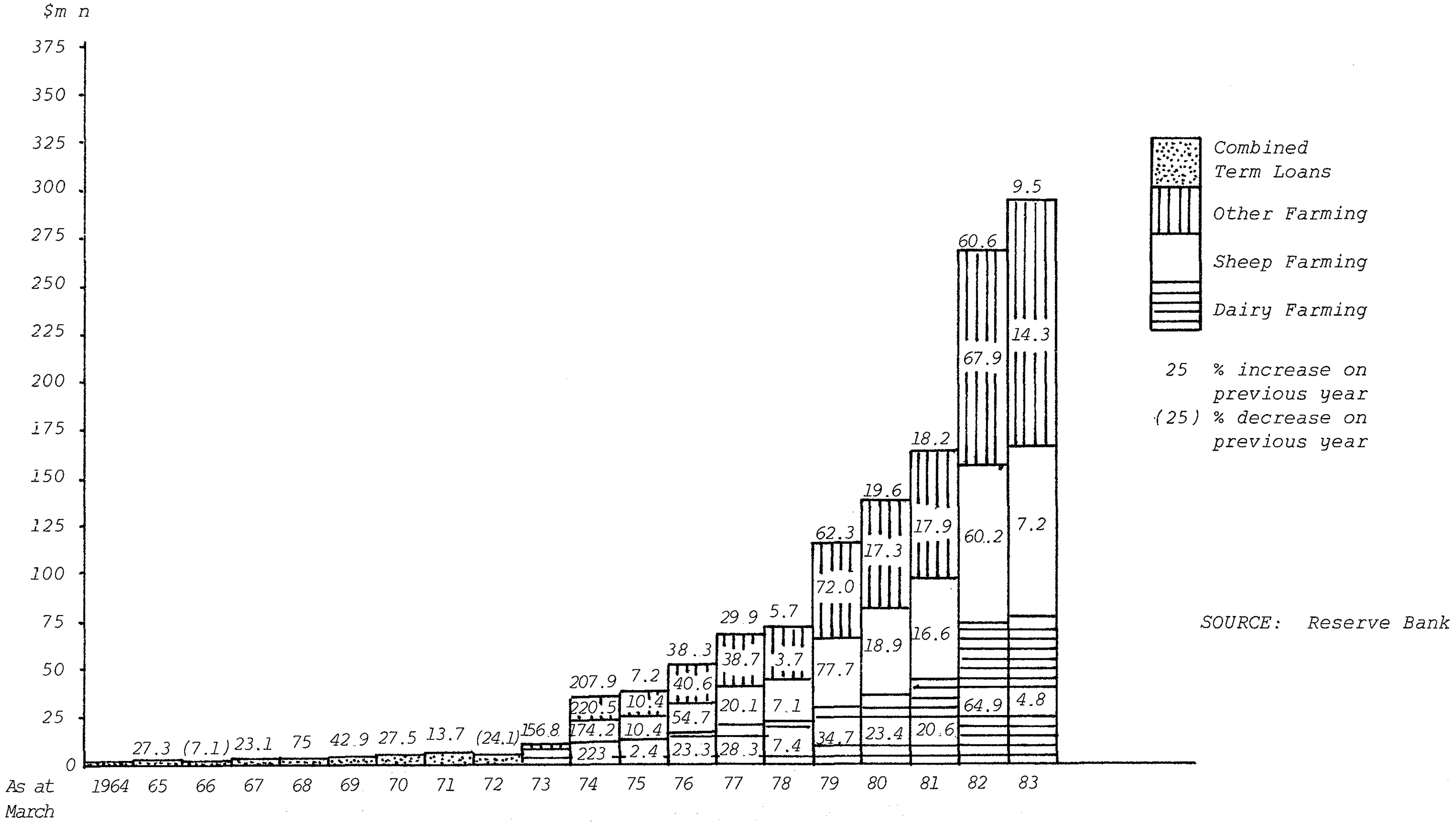
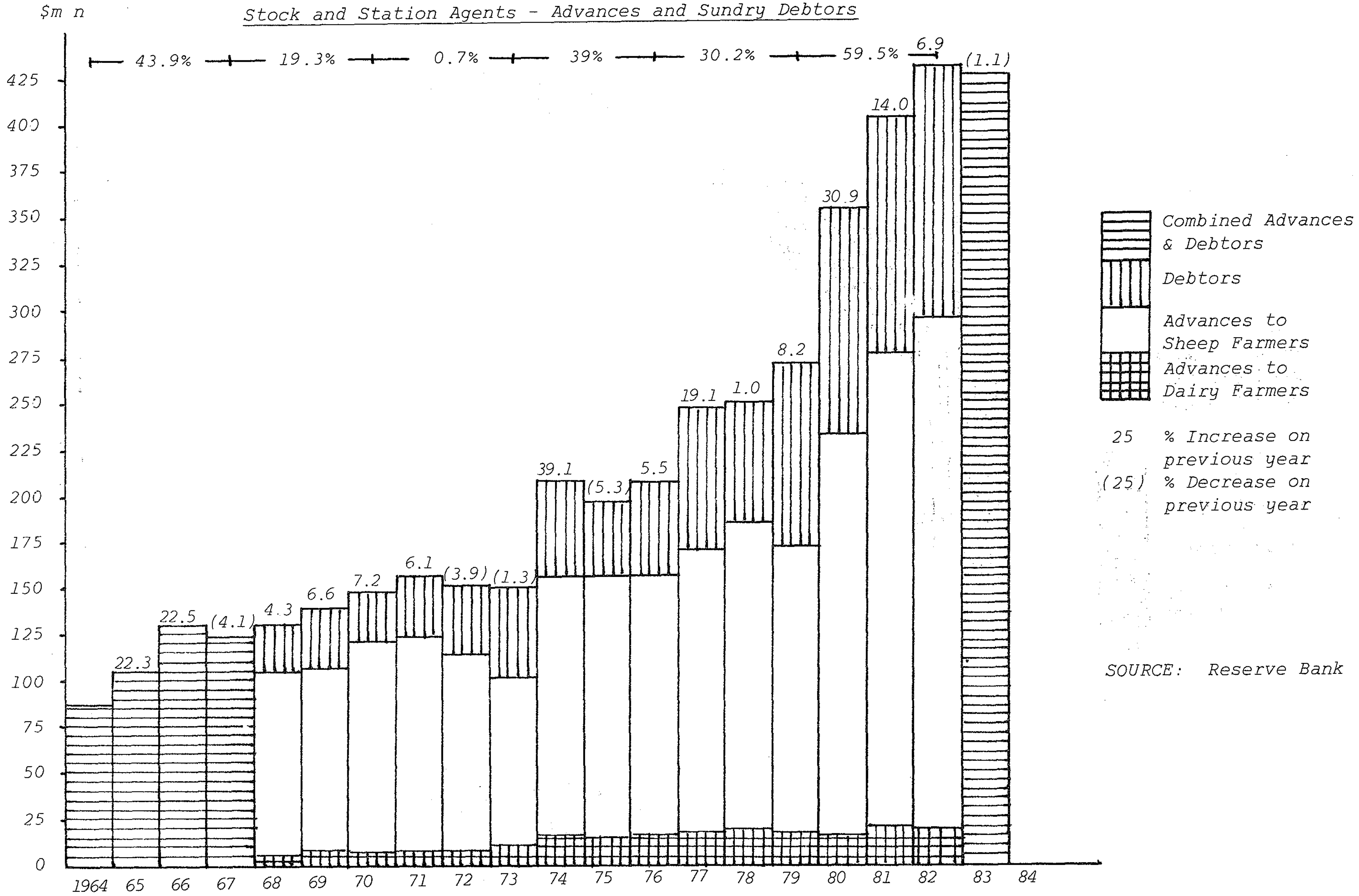


FIGURE 11

Stock and Station Agents - Advances and Sundry Debtors



SOURCE: Reserve Bank

4.2.7 Life insurance companies.

Life insurance companies have been a traditional source of long-term finance for farmers but over the 1970-1983 period their real level of lending fell. In 1970 life insurance companies were lending to farmers 48 per cent of the amount lent by the Rural Division of the State Advances Corporation. By 1983 the proportion had fallen to 19 per cent of the amount lent by the Rural Bank.

Despite the overall fall, since 1980 life insurance companies have shown real growth in lending. Adverse economic conditions have heightened the public's security consciousness and despite inflation resulted in more people saving through life insurance. As life offices are obliged to invest 20 per cent of their funds in housing and farm loans, the boom in premium income has had a corresponding effect on the amount of farm lending.

However, demand has been described by the main insurance sector lenders as well in excess of supply, and loan funds have to be rationed on bases other than price. The primary test appears to be the extent of the premium paying association clients have with their life office. Most demand is from borrowers who cannot qualify for cheap Rural Bank or other Government money and have to refinance or consolidate high cost short-term debt, e.g. farm mortgages from merchant bankers on 2-3 year terms at 18-21% flat interest rates.

SECTION 5

CONCLUSIONS

Throughout this paper some significant developments and trends have been noted. In any summary of the main points to emerge the following, inter alia, would merit inclusion:-

(1) Over the past 20 years the New Zealand economy has experienced a long downhill slide, characterised by declining demand for many traditional primary products on export markets, inflation and compensating devaluations and other Government support measures for agricultural producers. Given a feeling of security by this support, farmers, among other sectors, have generally had little incentive to diversify into new products and unprotected industries.

(2) In the farm finance market Government involvement has increased both in the support of farm incomes and in controlling the availability and cost of credit. Examples:

(a) The supplementary minimum price scheme has been used to maintain gross incomes. This scheme has undoubtedly had an impact on the demand for rural credit;

(b) Costs have been controlled by the price and wage freeze;

(c) Interest rates have been controlled by regulations. However the impact of the lower interest rate policy is only marginal so far and will be very gradual in its effect on farm costs;

(d) Off-setting the decrease in long-term funds provided by private institutions, funding by the Rural Bank has increased, to the extent that the Rural Bank has become isolated as the major source of long-term funds.

(3) Farmers' equity has increased significantly because debt levels have not risen at the same rate as property values. The slower rate of increase in debt has probably been due to the failure of incomes to increase in step with inflation in land values.

(4) The cost of finance is now a major concern of farmers. Despite support measures, farmers' incomes have fallen in real terms. Furthermore capital gains, which were an attractive feature of farm investment, are now uncertain. With price expectations and market

prospects not being high for several major products in the short term, it must be anticipated that a substantial number of farmers will encounter some difficulties in servicing their debt.

(5) Overall, for farmers, the availability of finance appears to have diminished in importance over the past two years. The major concern of farmers is now the cost of finance. However there still appear to be sectors of the credit market where supply is a significant constraint.

(a) In real terms the amount of short-term finance available from stock and station agents and trading banks has declined significantly over the past decade. This is despite higher levels of stocking and farm inputs;

(b) Long-term finance from private institutional lenders is in very short supply. Farmers who do not qualify for Rural Bank finance are considerably disadvantaged.

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